



Economic Impact Analysis Virginia Department of Planning and Budget

12 VAC 30-80 – Methods and Standards for Establishing Payment Rates; Other Types of Care: State agency fee schedule for RBRVS
Department of Medical Assistance Services
December 31, 2008

Summary of the Proposed Amendments to Regulation

Pursuant to Chapter 879 of the 2008 Acts of the Assembly, Item 306 PP the proposed regulations implement a site of service differential in physician reimbursement rates in a budget neutral manner. The proposed regulations have been in effect since July 2008 under emergency regulations.

Result of Analysis

The benefits likely exceed the costs for all proposed changes.

Estimated Economic Impact

Pursuant to Chapter 879 of the 2008 Acts of the Assembly, Item 306 PP the proposed regulations implement a site of service differential in physician reimbursement rates in a budget neutral manner. The proposed regulations have been in effect since July 2008 under emergency regulations.

While the Virginia Medicaid physician reimbursement methodology and rates have been closely modeled after Medicare methodology, due to computer system limitations at the time, Virginia Medicaid could not implement the site of service differential that was adopted by Medicare in 1999 and fully phased in by 2002. Instead, Virginia Medicaid had reimbursed for all physician services as if they were all performed in a non-facility (i.e. physician office) setting. Non-facility rates are higher than facility setting (i.e. outpatient hospital) rates because the physician cost of providing care in a non-facility setting is higher as there is no other entity such as a hospital to pay for a significant portion of the physicians' associated costs. Simply put, the cost of providing care to the physicians in their office is higher than the cost of providing care in

a hospital setting. Over the years, the site of service difference has grown significantly and caused Virginia Medicaid to pay significantly higher rates than Medicare for physician services performed in a facility setting.

Currently, Virginia Medicaid has the technical capability to incorporate the site of service differential in physician reimbursement rates. Pursuant to the legislative mandate, the proposed regulations implement differential reimbursement rates for services provided in a facility and in a non-facility. Because all physician services prior to emergency regulations were reimbursed at non-facility rates and non-facility rates are higher, the estimated reduction in total physician reimbursements, holding everything else constant, would have been about \$6 million in total funds. However, the proposed regulations provide a percentage increase phased in over a four-year period in all physician categories of service that offsets the site of service differential reduction. In other words, one fourth of the difference between the facility and non-facility rates and the corresponding percentage increase in other rates will be implemented this year, another one fourth next year, and so on.

At the aggregate, the total amount paid by Virginia Medicaid to all of the physicians is expected to stay the same. However, it is possible that physicians that provide most of their services in a non-facility setting may experience a reduction in their total reimbursement as the percentage increase in other rates may not fully compensate the reduction due to site of service differential. Also, recognition of differential costs arising from site of service in reimbursement methodology is expected to improve allocative efficiency of Virginia Medicaid dollars.

Businesses and Entities Affected

The proposed regulations recalibrate the physician rates in a budget neutral fashion. Approximately 65,290 physicians and other practitioners are enrolled in the Virginia Medicaid program.

Localities Particularly Affected

The proposed regulations apply throughout the Commonwealth.

Projected Impact on Employment

No significant impact on net employment is expected.

Effects on the Use and Value of Private Property

No significant impact on the net use and value of private property is expected.

Small Businesses: Costs and Other Effects

On net, no costs or other effects are expected on small businesses.

Small Businesses: Alternative Method that Minimizes Adverse Impact

On net, no costs or other adverse effects are expected on small businesses.

Real Estate Development Costs

No effect on real estate development costs is expected.

Legal Mandate

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.H of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.H requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.H requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.